

Fiscal Note

Fiscal Services Division



HF 2472 – Broadband Development (LSB 5359HZ)

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Fiscal Note Version – New

Description

House File 2472 relates to development of broadband access across the State and to the taxation of telecommunications companies. Broadband is defined as a high-speed, high-capacity electronic transmission medium that carries data signals from multiple independent network sources by establishing different bandwidth channels. Broadband is commonly used to deliver Internet services.

Provisions of this Bill with potential fiscal impact include:

- State income tax accelerated depreciation for broadband infrastructure expenditures for infrastructure placed in service on or after July 1, 2014.
- A new broadband infrastructure income tax credit equal to 3.5% or 7.0% of the qualified expenditures of a communications provider on or after July 1, 2014. The 3.5% credit is allowed for infrastructure expenditures in areas defined as underserved and the 7.0% credit is allowed in areas defined as unserved. To qualify for the credit, the taxpayer must certify, prior to installation commencement, that the broadband infrastructure installation will take place within a targeted unserved or underserved service area as defined in this Bill.
- A 10-year property tax exemption, equal to 100.0% of the actual value added, for broadband infrastructure installations completed on or after July 1, 2014. To qualify for the exemption, the taxpayer must certify, prior to installation commencement, that the broadband infrastructure installation will take place within a targeted unserved or underserved service area as defined in this Bill.
- A requirement that the Department of Revenue utilize the “replacement cost new, less depreciation” method for centrally assessing a telephone and telegraph company that has 1) property situated in a majority of the counties in the State, and 2) has a total actual value for assessment purposes of \$780.0 million for assessment years 2013 and for 2014. There is only one Iowa telecommunications company that meets both requirements. Under current law, telecommunications companies are valued for assessment purposes using a combination of cost, income, and market approaches to valuation. The change is effective with assessment year 2015 (FY 2017).
- Creation of a grant program for employers who employ interns in the fields of science, technology, engineering, and mathematics. The employer incentive is a State match of one dollar for every dollar paid by the employer to an intern. The amount the employer may receive is limited to \$5,000 per internship. The Economic Development Authority is given administrative responsibility for the employer incentive program and the program is contingent upon funding provided by the General Assembly. This Bill does not provide funding for the program, but a \$1.0 million General Fund appropriation is included in **HF 2460** (FY 2015 Economic Development Appropriations Bill), as that Bill passed the House on April 1, 2014.

Assumptions

Broadband Infrastructure Incentives

- The special depreciation allowance includes infrastructure expenditures where the infrastructure is placed in service on or after July 1, 2014.
- The tax credit is available for infrastructure expenditures on or after July 1, 2014, but the credit is not allowed unless the project has been certified, prior to initiation of the project, as serving qualified areas of the State.
- The property tax exemption applies to all qualified infrastructure completed on or after July 1, 2015, but the exemption is not allowed unless the project has been certified, prior to initiation of the project, as serving qualified areas of the State.
- Based on the previous three bullets, the depreciation allowance will apply to any project that is already underway. The tax credit and property tax exemption require certification before an eligible project is initiated. Therefore, the new income tax credit and property tax exemption do not apply to projects that are already underway.
- The amount of broadband expansion that currently takes place in Iowa is not known, nor is the total amount of broadband expansion that is needed to cover all areas of the State that currently qualify as underserved or unserved as those terms are defined in the Bill.
- For the purposes of this fiscal note, telecommunications companies are assumed to complete \$6.25 million in calendar year 2014, in qualified broadband expansion projects in underserved areas. Of that amount, 50.0% is assumed to be projects that would not occur without the tax incentives in the Bill, and 50.0% is assumed to occur with or without the new incentives.
- For the purposes of this fiscal note, telecommunications companies are assumed to complete \$50.0 million per year, beginning calendar year 2015, in qualified broadband expansion projects in underserved areas. Of that amount, 50.0% is assumed to be projects that would not occur without the tax incentives in the Bill, and 50.0% is assumed to occur with or without the new incentives.
- The tax credit portion of the estimate is calculated using an average of the 3.5% and 7.0% tax credit rates (5.25%).
- To fully benefit from the two income tax incentives, telecommunications companies must have sufficient income tax liability to utilize the additional depreciation and tax credits. It is assumed that as a group, telecommunications companies will be able to utilize no more than \$3.0 million in fiscal year 2015 tax benefits, and that \$3.0 million is assumed to increase 6.0% per fiscal year. Any tax benefits earned in a tax year that a company is not able to utilize that tax year will carry forward to future tax years until fully utilized.
- For property tax impact calculations, only the 50.0% of expenditures that are assumed to occur without this Bill are included in the fiscal impact calculation.
- For property tax value purposes, the assessed value is assumed to be the expended amount in the first year, and the assessed value of the property declines by 6.67% of the original expended amount each year.
- The property tax rate for utility property is assumed to be \$32.36 per \$1,000 of taxed value for all years. This is the average of the statewide urban (\$38.73) and rural (\$25.99) rates for the utility class of property paid in FY 2014. That tax rate is assumed for all future years. Of the \$32.36 rate, \$5.40 represents the school foundation levy and therefore has a State General Fund appropriation impact. The remaining \$26.96 has a local government impact.
- Property assessed for property tax purposes on January 1, 2015 (assessment year 2015), first impacts property taxes paid during FY 2017.

Telecommunications Company Assessment Method

- At a Statewide assessed value of \$780.0 million, the single, qualified company represents 54.0% of all telephone utility property value in Iowa, prior to the application of property tax exemptions. Under the provisions of [Iowa Code section 433.4\(2\)](#), enacted in 2013 (SF 295), a telecommunications company with a \$780.0 million assessed value will have a taxable value of \$592.3 million for FY 2016 and after. Using an assumed property tax rate of \$32.36 per \$1,000 under current law the company would pay \$19.2 million in property tax for FY 2017 and after.
- Using the “replacement cost new, less depreciation” method required under this Bill, the Department of Revenue estimates that the taxable value of the company would be \$379.9 million, \$212.4 million below the taxable value under current law.
- A decrease in taxable value of that amount will result in an annual property tax reduction for the company of \$6.87 million. The result of this tax reduction will be a \$1.15 million increase in the State appropriation for school aid, and a \$5.72 million decrease in local government property tax revenue.

Fiscal Impacts

Income Tax Depreciation and Tax Credit Changes

The enhanced accelerated depreciation provisions and the creation of a new income tax credit will reduce the State income tax owed by telecommunication companies and as a consequence, reduce net General Fund revenue. The estimated impact by fiscal year is:

- FY 2015 = \$-0.4 million
- FY 2016 = \$-2.9 million
- FY 2017 = \$-3.4 million
- FY 2018 = \$-3.6 million
- FY 2019 = \$-3.8 million

The estimated net General Fund impact of the depreciation and tax credit changes continues to grow modestly in future fiscal years as long as companies continue to build out broadband infrastructure into underserved and unserved areas.

Property Tax Exemption

The new property tax exemption will impact the State General Fund through an increased school aid appropriation at a rate of \$5.40 per \$1,000 of exempt value. The projected appropriation increases by fiscal year are:

- FY 2017 = \$0.0 million
- FY 2018 = \$0.3 million
- FY 2019 = \$0.6 million
- FY 2020 = \$0.8 million
- FY 2021 = \$1.0 million

The annual increase in the school aid appropriation continues to expand until the exemption has been in place for 10 years, or until companies cease to build qualified broadband infrastructure in underserved areas.

The new property tax exemption will impact local government revenue at a rate of \$26.96 per \$1,000 of exempt value. The projected impacts by fiscal year are:

- FY 2017 = \$-0.1 million
- FY 2018 = \$-1.5 million
- FY 2019 = \$-2.8 million
- FY 2020 = \$-3.9 million
- FY 2021 = \$-5.0 million

The reduced local government property tax revenue continues to grow until the exemption has been in place for 10 years, or until companies cease to build broadband infrastructure in areas defined as underserved and unserved.

Telecommunications Company Assessment Method

The requirement that a single telecommunications company be assessed as a unit, using the “replacement cost new, less depreciation” method will reduce the property taxes owed by the company. The reduced taxes paid will increase the State General Fund appropriation for school aid by \$1.15 million and local government property tax revenue by \$5.72 million. Both amounts are annual impacts that begin FY 2017.

Employer Incentives for Employing Interns

The grant program for employers who hire interns in the fields of science, technology, engineering, and mathematics created in Division VI of this Bill is contingent upon an appropriation. This Bill does not include an appropriation for the intern incentives, but a \$1.0 million FY 2015 appropriation is included in HF 2460 as it passed the House.

Government Finance Impact Summary

The following table summarizes the projected impact of the Bill on State and local government finance.

Government Finance Projected Impact Summary		
In millions of dollars		
	State General Fund Impact	Local Government Revenue Impact
FY 2015	\$ -1.4	\$ 0.0
FY 2016	-3.9	0.0
FY 2017	-5.6	-5.8
FY 2018	-6.1	-7.2
FY 2019	-6.6	-8.5
FY 2020	-7.0	-9.6
FY 2021	-7.5	-10.7

The General Fund impact includes the revenue reductions associated with the new income tax credit and accelerated depreciation, as well as the impacts of the two property tax changes on the annual school aid appropriation and the new appropriation of \$1.0 million for grants to employers who hire interns in specified disciplines. For the table, this new appropriation is assumed to continue at the \$1.0 million level after FY 2015.

The local government impact is the result of the broadband exemption and the telecommunications assessment method change.

Sources

Department of Revenue
Legislative Services Agency analysis

/s/ Holly M. Lyons

April 23, 2014

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
